

Column



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# Commercial Aspects of Shipping

## Market Players in Shipping

The views expressed here are solely those of the author, and do not necessarily reflect the views of the organization he represents.

September to November issues dealt with Market Dynamics and the December issue tried to address the all important topic of "meeting the customer expectations". Let us begin the New Year with "Players in the Shipping Market" before we progress to the charter party clauses in the future issues of the Sailor Today. Taking this opportunity, I would like to wish all the readers a "Very Prosperous, Healthy and Peaceful New Year 2006".

Principal characters in the trading world are exporters and importers, shippers and receivers, consignors and consignees but there are many other parties involved in international trade execution side.

**Shipowner:** Most but by no means all ships are owned by companies. Some may own just a few ships whilst others may have very large fleets. Some shipowners, especially those with small fleets or institutions who have bought ships as a speculative investment, employ **ship managers** to manage their ships for them. Some shipowners may like to manage their own ships using an in-house ship management department. The flexibility, critical mass, economies of scale and the availability of manpower for the ships are some of the factors that are considered important in making the "outsourcing" or "in-

house" management decision.

**Charterers:** Where bulk cargoes are concerned, the entity employing the ship, if not the owner carrying his own cargoes, is referred to as the **charterer**. A charterer may be the actual exporter or importer but might also be a **trader** who acts between them. With bulk cargoes, it is most usual for the entire ship to be chartered although part-charters (parcel cargoes) occasionally occur. The charterer may take the ship for a **single voyage** when it is customary for the owner to charge a rate per tonne or a lumpsum to carry the goods from A to B. The charterer may, however, need to have more flexibility than a voyage charter permits and will then take the ship on **time charter** in which case it is customary to pay a rate per day for the time agreed.

**Shipbrokers:** The shipowners and charterers involved in arranging the fixture are referred to as the **principals** but it is quite usual for the actual chartering deal - called a **fixture** - to be negotiated on behalf of the charterer and the shipowner by **shipbrokers with authority given by the principals**. The ship broker earns a commission on the freight or charter hire usually 1¼%.

For greater clarity it is common for the shipbroker representing the owner to be referred to as the **owner's broker** and the one acting for the charterer to be called the **charterer's broker**. Such shipbrokers may be, and often are independent firms or companies but among the larger shipowners and charterers it is quite common for the shipbrokers involved to be members of departments within the principal's own company.

**Ship operator:** It is quite common for companies,

even major companies, to operate ships as if they own them either on a line or in the tramp trades without actually owning them. This is done by taking the ships they require on time charter or another form of long term lease known as a bareboat charter, in which event they may be referred to as the **disponent owner**. The definition of a **disponent owner** is "*deemed to be the owner but not actually the owner*". The reason for acting in this way is that the operator has much greater flexibility to react to market changes and of course, does not have to find the large amounts of money that would be necessary if they were to buy all the ships they need. In recent times, a large shipowner, after listing on the stock exchange, followed this model where the owned vessels were sold off to make full use of the high asset values and then vessels were taken in on bareboat charters for long term. It might be a good idea for the readers to learn more about this interesting move.

The term ship operator is also used in a more general sense to cover ship owners, ship managers and ship operators collectively.

Let us now see the role of some of the practitioners in a little more detail:

1. Buying (or selling) a ship - **Sale & Purchase Broking.**

A buyer and seller usually require a broker to help finalise and execute the deal. An S&P broker is an important entity to make the transaction happen.

2. Once purchased the ship has to be crewed, stored, maintained etc. which involves **Ship Management.** after which it will require cargoes. Most cost effective running of the vessel, while complying with all the demanding rules and regulations is not easy in today's environment. A mistake in the management of the ship can be very expensive, both in terms of financial loss and reputation.

Now we have a product that is well maintained, managed and in full compliance of international rules and regulations, ready to carry cargo. Depending upon the characteristics of the vessel (Liner/dry/wet/gas/ refrigerated etc), its market will vary. We will now briefly see the market practitioners depending upon the type of the ship.

3. If the ship is a liner, the service must be marketed, the cargoes documented, arrangements made for loading and discharging these cargo all of which fall under the heading of **Liner Trades**, which will be carried out either within the liner operating company or by independent **Liner Agents**.

4. If the ship is a dry-cargo tramp, finding a cargo for the ship (or finding a ship for the cargo) will be the task of brokers in **Dry Cargo Chartering.**

5. A tanker will require a broker skilled in **Tanker Chartering.**

6. Whenever a dry-cargo tramp or a tanker calls at a port its interests will be entrusted to a company in that port those who specialise in **Port Agency.**

As the ships trade worldwide, unless these are servicing a fixed route and the company owning or operating the ships has offices in these ports of call, all ships require services of the port agents. Knowledge of local regulations, requirements, customs, work practices, ethics in addition to having all important capability of making arrangements in the shortest possible time are those strengths of the Port Agents that are indispensable.

**SHIP SALE & PURCHASE.**

Almost all marine related property can be bought and sold - often for many millions of dollars - whether it is an order for a new vessel from a shipyard, an old ship to a scrapyard for demolition or a second-hand ship for further trading. It is this trade in second-hand ships, which forms the major part of the work of a ship sale & purchase broker. Many of the seagoing readers may have experienced either taking over the ships from the previous owner's crew or handing over a ship to the new buyer. While such an activity may be unsettling for the individuals, changing hands is an important aspect of shipowning and/or asset playing.

Sale & purchase broking is probably the most highly specialised sector of shipbroking. It calls for all the usual attributes of a skilled negotiator with a wide range of knowledge of the technical aspects of ships.

It is customary for an S & P broker to be working specifically for one party or the other in a deal. When working for a potential buyer the broker has to be well versed in ship types, values as well as the characteristics and virtues of particular ship designs, builders and machinery in order to be able to advise clients appropriately. Advice on such matters as registration and classification even on sources of finance may even be called upon.

If working for a seller, the broker has to be able to place the ship before as many likely buyers via their brokers in the shortest possible time, giving a wide exposure to attract the best price and terms. Sometimes, private deal is the requirement of an owner and the broker must therefore, discuss the process to be adopted with the owner, while giving him the best advice to achieve the most beneficial deal.

In both situations a thorough knowledge of the strength of the market is essential so that the buyer does not have to pay a penny more than the minimum necessary to secure the right ship and the seller gets the best price possible.

It is this market knowledge which enables leaders in the S & P field to act as **ship-valuers** when called upon for an expert opinion by such people as governments,

financial institutions, insurance underwriters, probate lawyers, arbitrators and, of course, lawyers needing an expert witness.

The sums of money involved in S & P are very great, but the ratio of deals which founder considerably outnumber those that succeed. An S & P broker must, therefore, be able to cope with a high level of frustration, although when a deal does succeed the rewards can be very attractive. S & P brokers' income arises from a commission on the price paid when the sale is concluded and all the brokers involved receive this commission from the seller. Rates of commission vary from 2½% for very small ships, down to 1% which is paid by the party receiving payment (Seller). or sometimes less for larger sizes. Whatever may be the commission, it is essential that the figures are agreed between the principals and the brokers at the onset for good working relationship.

#### **SHIP MANAGEMENT.**

Maintaining a ship as an operational unit requires a variety of specialist services. In a medium to large shipowning enterprise these may be carried out within the company. Where an owner has only a very few ships it may be found more economical to use the services of a third party ship management company.

Ship management companies fall into two main categories, one being a shipowning company that manages its own ships and offers the same service to other shipowners. The other type is a company that has no ships of its own and solely provide ship management service to shipowners. Such shipmanagers are generally called "professional shipmanagers".

Ship management appointments are individually negotiated according to the requirements of the principals and are normally based on BIMCO Shipman agreement, which is a Standard Ship Management Agreement that sets out in greater detail all the different tasks a ship manager may be called upon to perform.

Since the readers are most familiar with this aspect of shipping, let us move on to the next.

#### **LINER TRADES**

This sector of shipping business is generally referred to as Liner Trades rather than Liner Agency because whilst much of this work is carried out by independent liner agents, many liner operators now use departments in their own organizations to do this work. Whether "in house" or done by agents the work is the same and you may like to refer to a **Standard Liner Agency Agreement**, a form devised by the international agents' association known as the **Federation of National Associations of Ship Brokers and Agents (FONASBA)** and recommended by the Baltic and International Maritime Council (BIMCO).

The Fonasba agreement is intentionally comprehen-

sive in its summary of an agent's duties but there can be several variations. For example, the agent may only be called upon to deal with inward cargo arriving in the agent's territory or conversely only deal with outward cargo. The agent may even be involved only in sales and marketing (with no contact with the ship) which would be the case for an agent in, say, Switzerland, Austria, Zimbabwe or any other land-locked area; such agents are often referred to as **hinterland agents**.

Despite the rapid advance in electronic equipment, especially the computerisation of documentation and accounts, Liner work is the most labour-intensive sector of shipping business. That simple word "documentation" can involve the processing of many hundreds of separate consignments in a very short period of time. Each of these will involve several duties including, in the case of outward cargo, such items as taking cargo bookings including calculating the freight, checking the bills of lading, recording the container movement etc. With inward cargo there is the all-important task of ensuring the cargo is handed over to the legitimate bill of lading holder.

The prime advantage gained from containerisation was the reduction of the work to be done on the dockside but this inevitably meant radically increasing the amount of work in the liner agency office.

#### **DRY CARGO CHARTERING**

First assume that there is one broker representing the charterer looking for ships to carry his principal's cargoes and another broker representing the shipowner looking for cargoes to fill his principal's ships; this is not always so but is very often the case.

The brokers may be **exclusive brokers**, which means the principal channels all his business through that one broker whose job it is to advise the principal and to ensure the best possible deal in every case. Exclusivity may be total or may be exclusive to one part of the world so that the principal may use one broker in London another in New York another in Hong Kong and so on.

The other way is where the principal places his business through several brokers who are then referred to as **competitive brokers** because, of course, they compete with each other to bring suitable business to the principal.

There is another category that is referred to as **intermediate broker** who may be part of a chain linking brokers on either side of them. This is far less common than it was because modern methods of communication make communication from one side of the world to another as easy as a local telephone call. An intermediate broker may also be used when that broker is the only one between the two principals.

The most exclusive broker is one who is part of the principal's company. This is quite common, for example

almost all the 'London Greeks' have their own broking staff and many of the major grain companies have their own chartering departments.

Whether exclusive, competitive or intermediate and whether working for the owner or the charterer, all have one duty in common they have to **know their market**. That does not simply mean knowing the trade they are in but recognising, for example, how a sudden demand in a different part of the world for a totally different commodity can trigger a rise in rates in their own trade sooner or later.

A brokerage (commission) of 1¼% to each of the brokers involved in the fixture is usual in dry cargo chartering.

A chartering department does not consist entirely of brokers. Their back-up, generally referred to as the **post fixture department**, requires people who can translate the various notes, faxes, telexes etc. into a written contract - the charterparty - ready for principals to sign. It is the post fixture department in an owner's (includes disponent owner) office that normally and extensively liaises with the master (the captain) for various matters including the cargo loading/discharging and communication with the charterers.

#### **TANKER CHARTERING**

Most of that which has been said about dry cargo chartering applies to tankers except that tanker chartering is highly specialised. Many of the ships are limited to one commodity and the charterers are often major oil companies. Tanker Chartering is generally done on *Worldscale* terms. This is fixed rate per tonne for a standard vessel calculated from each load port to each discharge port. The fixture rate is then a percentage of the standard calculated rate. The broker is generally between the two principals both of whom have a profound knowledge of the trade.

"Urgency" seems endemic in the crude oil world, the time lapse between a business coming into the market and being fixed is usually very short. Thus, the charterers tend to be more concerned with the sheer speed of finding the right ship. Exclusive brokers are rare in tankers and it has been said that the job requires something of a "fire brigade mentality". Today most tanker vessels inspected and vetted by the oil majors in advance of fixing so that they can be pre approved.

As with dry cargo chartering, 1¼% is the usual brokerage in tanker fixtures.

#### **PORT AGENCY**

There is probably nowhere where the truth is more apparent that "time and tide wait for no man" than in Port Agency. It is seen that almost two thirds of all ships arrive and depart outside normal office hours. For a port agent, nevertheless, there is a special sort of job satisfaction in dealing physically with ships and their person-

nel.

When a tramp or a tanker calls at a port to load or discharge there is a considerable amount of work that has to be done before, during and after that call. The agent's first task will be to confer with the port authority who will demand payment (or a commitment to pay) large sums of money in dues for the use of the port. Duties may also include arranging a berth and will certainly entail liaising with the people involved in the actual loading or discharging who would be stevedores (dry cargo) or the jetty management (tankers). Then the tugs, pilot and mooring crew have to be ordered.

The agent usually meets the ship on arrival regardless of the time of day or night. In the past, except for a laconic exchange of radio telegrams, this would have been the first contact between the agent and the ship's master (the captain). This first meeting is, however, an important one as there are several customs and immigration formalities to be dealt with. Important also will be the handing to the captain the amount of cash he requires and almost as important, the handing over of the mail which will be eagerly awaited by the crew.

Delivery of stores and spares have to be arranged and cleared through customs, service engineers for ship's equipment and classification surveyors may be needed, matters arising out of port state control inspections may require to be addressed, as per master's instructions and mundane tasks like organising laundry are all part of the agent's duties. Crew members may need medical or dental attention etc. In fact there is no end to the activities in which the agent may be called upon to become involved and where the agent's local knowledge is invaluable.

Throughout this time the agent will be keeping the owner advised of the ship's progress and make any recommendations which might assist in the all-important task of turning the ship round in the shortest possible time.

The job is not finished when the ship has sailed. The parties will probably require a **Statement of Facts**, which is a record of how every minute of the ship's time in port was spent. From this the amount of demurrage or despatch, if any, will be calculated.

The final job is to gather together all the accounts that have been paid on the ships behalf and compile the **disbursement account** for submission to the owner. The agent's remuneration is usually a fee, often based upon a tariff. These tariffs were at one time mandatory, some even had governmental support, but today in many countries any form of price-fixing is prohibited. Whilst the size of the ship may not determine the actual amount of work involved it has always been accepted that such scales reflect the concept that the larger the ship the greater the agent's responsibility, plus some element of



'what the traffic will bear'.

**THE INSTITUTE OF CHARTERED SHIPBROKERS**

In 1911, when the Institute was first formed, the world of shipping was a simpler place and the term 'shipbroker' in the United Kingdom referred to a person who arranged the chartering of ships, looked after them when they called in port and very occasionally became involved in sale and purchase negotiations. Liner services were in the hand of a relatively few major operators who used their own offices or exclusive 'loading brokers' to look after their business.

Since that time, the Institute has become a truly international organization, retaining its title with all the tradition of professionalism it involves whilst fully recognizing the way in which specialization has created these six 'disciplines' within shipping business.

Furthermore it is recognized that the word 'shipbroker' means different things in different countries and in many there is a clear distinction made between brokers and agents. Indeed, several years ago the United Nations Conference on Trade and Development (UNCTAD) carried out a survey into the duties of the different intermediaries in shipping business in an attempt to find a single universal expression and eventually adopted the term "Shipping Agent" to cover everything including freight forwarders and forwarding agents. This survey was in connection with their devising a non-mandatory code of practice for shipping agents.

The name "Institute of Chartered Shipbrokers" may create a misunderstanding if not explained properly. Considering the different disciplines that the members of this prestigious institute pursue, in my opinion, the name is a synonym for "Institute of Chartered Shipping-Professionals" or "Institute of Chartered Maritime-Professionals". This may be something for the Controlling Council of the ICS to consider and address in future as this may involve issues related to the Royal Charter, approvals etc. Here, let me try to clarify that ICS membership comprises of ship managers, shipboard personnel (both navigation and engineering disciplines), shipowners, lawyers, insurers, port agents, bankers, brokers (both chartering and SnP – in dry and wet sectors) etc. The subjects that the candidates cover are not related only to port agency, chartering and shipbroking. There are many members or even fellows of the Institute, who did not have to undergo detailed study of Shipbroking, chartering and sale & purchase for the qualifying examination. Having said this, the basic subject "Shipping Business" (for which no exemption is granted to any one) covers, though in brief, all the disciplines of "Shipping-Profession". It indeed does help to have a reasonably good idea of what our other colleagues do in an organization, to support and help each other to achieve common goals of the organization.

Last date for registration for studentship and submission of qualifying examinations entry forms:

14<sup>th</sup> January and 21<sup>st</sup> January of every year. You may contact your local branches worldwide.

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**References:**

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